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Department of the Treasury
Internal Revenue Service

Instructions for Form 4684

Casualties and Thefts

General Instructions

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 12 min.
Learning about the law or the form	10 min.
Preparing the form	58 min.
Copying, assembling, and sending the form to IRS	35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the Instructions of the tax return with which this form is filed.

Purpose of Form

If you had a gain or loss from a casualty or theft, you must use Form 4684 to figure the amount to report.

Who Must File

Form 4684 is completed to report gains and losses from casualties and thefts. Attach Form 4684 to your tax return.

Deductible Losses

You may deduct losses arising from fire, storm, shipwreck, or other casualty, or theft (for example, larceny, embezzlement, and robbery).

If your property is covered by insurance, you must file a timely insurance claim for reimbursement of your loss. Otherwise, you cannot deduct this loss as a casualty or theft loss. However, the portion of the loss that is not covered by insurance is still deductible.

If the amount you receive in insurance or other compensation is more than the cost or other basis of property, you have a casualty or theft gain.

Related expenses.—The related expenses you have due to a casualty or theft, such as expenses for the treatment of personal injuries or for the rental of a car, are not deductible as casualty or theft losses.

Costs for protection against future casualties are not deductible but should be capitalized as permanent improvements. An example would be the cost of a levee to stop flooding.

Which Sections To Complete

Section A, page 1, is for figuring casualty or theft gains and losses to property that **is not** used in a trade or business or for income-producing purposes.

Section B, page 2, is for figuring casualty or theft gains and losses to property that **is** used in a trade or business or for income-producing purposes.

If property is partly used in a trade or business, and partly for personal purposes, such as a personal home with a rental unit, figure the personal part in Section A and the business part in Section B.

Additional Information

Get the following publications for more information:

Pub. 225, Farmer's Tax Guide;
Pub. 334, Tax Guide for Small Business;
Pub. 529, Miscellaneous Deductions;
Pub. 534, Depreciation;
Pub. 547, Nonbusiness Disasters, Casualties, and Thefts;
Pub. 550, Investment Income and Expenses;
Pub. 551, Basis of Assets; and
Pub. 584, Nonbusiness Disaster, Casualty, and Theft Loss Workbook.

When To Deduct a Loss

Deduct the part of your casualty or theft loss that is not reimbursable. Deduct it in the tax year the casualty occurred or the theft was discovered. However, a disaster loss and a loss from deposits in insolvent or bankrupt financial institutions may be treated differently. See **Special Rule for Disaster Losses** and **Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions,** below.

If you are not sure whether part of your casualty or theft loss will be reimbursed, do not deduct that part until the tax year when you are reasonably certain that it will not be reimbursed.

If you are reimbursed for a loss you deducted in an earlier year, include the reimbursement in your income in the year you received it, but only to the extent the deduction reduced your tax in an earlier year.

If property is destroyed or lost by casualty or theft and replaced with similar property, the gain, if any, may be partially or wholly nontaxable. Report on this form only the part of the gain that is taxable.

See Pub. 547 for special rules on when to deduct losses from casualties and thefts to leased property.

Special Rule for Disaster Losses

A disaster loss is a loss that occurred in an area determined by the President of the United States to warrant Federal disaster assistance.

If your home was located in a disaster area and your state or local government ordered you to tear it down or move it because it was no longer safe to use as a home, the loss from tearing it down or moving it is treated as a disaster loss. The order for you to tear down or move the home must have been issued within 120 days after the area was officially declared a disaster area.

Use the value of your home before you moved it or tore it down as its fair market value after the casualty for purposes of figuring the disaster loss.

You may elect to deduct a disaster loss in the prior tax year as long as the loss would otherwise be allowed as a deduction in the year it occurred.

This election must be made by filing your return or amended return for the prior year, and claiming your disaster loss on it, by the later of the following two dates:

(1) The due date for filing your original return (without extensions) for the tax year in which the disaster actually occurred.

(2) The due date for filing your original return (including extensions) for the tax year immediately before the tax year in which the disaster actually occurred.

You may revoke your election within 90 days after making it by returning to the Internal Revenue Service any refund or credit you received from the election. If you revoke your election before receiving a refund, you must repay the refund within 30 days after receiving it.

The return claiming the disaster loss should specify the date or dates of the disaster and the city, town, county, and state in which the damaged or destroyed property was located.

Note: *To determine the amount to deduct for a disaster loss, you must take into account as reimbursements any benefits you received from Federal or state programs to restore your property.*

Special Treatment for Losses on Deposits in Insolvent or Bankrupt Financial Institutions

If you incurred a loss from a deposit in a bank, credit union, or other financial institution because it became insolvent or bankrupt, and meet all the qualifications explained in Pub. 547, you can choose to deduct the loss as:

- A nonbusiness bad debt on Schedule D; or
- A casualty loss to personal use property on Form 4684; or
- An ordinary loss (miscellaneous itemized deduction) on Schedule A (Form 1040), line 21. Get Pub. 529 for details.

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Get Pub. 547 for more information on the choice of tax treatment and how to figure the amount of the deductible loss.

A nonbusiness bad debt is deducted as a short-term capital loss. You must wait until the actual loss is determined before you can deduct the loss as a nonbusiness bad debt. See Pub. 550 for details.

If you are a 1% or more owner, an officer of the financial institution, or related to any such owner or officer, you cannot deduct the loss as a casualty loss or as an ordinary loss. See Pub. 550 for the definition of "related."

You **cannot** choose the ordinary loss deduction if any part of the deposits related to the loss is federally insured.

You can decide to deduct the loss as a casualty loss or as an ordinary loss in any year in which you can reasonably estimate how much of your total deposits in a qualified institution you have lost. If you make this choice, and have more than one account in the same financial institution, you must include all your accounts. Once you make the choice, you cannot change it without permission from the Internal Revenue Service.

To choose to deduct the loss as a casualty loss, complete Form 4684 as follows: In Section A, line 1, show the name of the financial institution and write "Insolvent Financial Institution." Skip lines 2 through 9. Enter the amount of the loss on line 10, and complete the rest of Section A.

If, in a later year, you recover an amount you deducted as a loss, you may have to include the amount recovered in your income for that year. See Pub. 547 for details.

Line-by-Line Instructions

Section A, Personal Use Property

Use a separate column for lines 1 through 9 to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of lines 1 through 9.

Use a separate Section A of Form 4684 through line 12 for each different casualty or theft occurrence involving property not used in a trade or business or for income-producing purposes.

Do not include any loss previously deducted on an estate tax return.

If you are liable for casualty or theft losses to property you **lease** from someone else, see Pub. 547.

Line 2.—Cost or other basis usually means original cost plus improvements. Subtract any postponed gain from the sale of a previous main home. Special rules apply to property received as a gift or inheritance.

Line 3.—Enter on this line the amount of insurance or other reimbursement you received or expect to receive for each property. Include on this line your insurance coverage, whether or not you are submitting a claim for reimbursement. For example, your car worth $2,000 is totally destroyed in a collision. You are insured with a $500 deductible, but decide not to report it to your insurance company because you are afraid the insurance company will cancel your policy. In this case, enter $1,500 on this line.

See the instructions for Section B, line 3, for other kinds of reimbursements you should consider.

Line 4.—Although you cannot deduct a loss for any part of a casualty or theft for which you did not claim reimbursement to which you are entitled, you cannot realize a gain from a reimbursement you did not claim. Therefore, in figuring a gain on line 4, subtract your cost or other basis in the property (line 2) only from the amount of reimbursement you actually received. Enter the result on line 4, but do not enter less than zero. If you filed a claim for reimbursement but did not receive it until after the year of the casualty or theft, see Pub. 547 for information on how to report the reimbursement.

Lines 5, 6, and 7.—Fair market value is the price at which the property would change hands between a willing buyer and a willing seller, each having a knowledge of the relevant facts. The difference between the fair market value immediately before the casualty or theft and the fair market value immediately thereafter represents the decrease in fair market value because of the casualty or theft.

The fair market value of property after a theft is zero if the property is not recovered.

Fair market value is generally determined by competent appraisal. The appraiser's knowledge of sales of comparable property about the same time as the casualty or theft, knowledge of your property before and after the occurrence, and the methods of determining fair market value are important elements in proving your loss.

The appraised value of property immediately after the casualty must be adjusted (increased) for the effects of any general market decline that may occur at the same time as the casualty or theft. For example, the value of all nearby property may become depressed because it is in an area where such occurrences are commonplace. This general decline in market value is not part of the property's decrease in fair market value as a result of the casualty or theft.

Replacement cost or the cost of repairs is not necessarily fair market value. However, you may be able to use the cost of repairs to the damaged property as evidence of loss in value if:

(a) The repairs are necessary to restore the property to the condition it was in immediately before the casualty;

(b) The amount spent for repairs is not excessive;

(c) The repairs only correct the damage caused by the casualty; and

(d) The value of the property after the repairs is not, as a result of the repairs, more than the value of the property immediately before the casualty.

To figure a casualty loss to real estate not used in a trade, business, or for income-producing purposes, measure the decrease in value of the property as a whole. All improvements, such as buildings, trees, and shrubs, are considered together as one item. Figure the loss separately for other items. For example, figure the loss separately for each piece of furniture.

Line 15.—If there is a net gain on this line, combine your short-term gains with your short-term losses, and enter the net short-term gain or loss on your Schedule D. Combine your long-term gains with your long-term losses and enter the net long-term gain or loss on your Schedule D. In both cases write "Form 4684, Schedule A."

Line 17.—Estates and trusts, figure adjusted gross income in the same way as individuals, except that the costs of administration are allowed in figuring adjusted gross income.

Section B, Business and Income-Producing Property

Use a separate column of Part I, lines 1 through 9, to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of Part I, lines 1 through 9.

Use a separate Section B, Part I, of Form 4684 for each different casualty or theft occurrence involving property used in a trade or business or for income-producing purposes. Use one Section B, Part II, to combine all Sections B, Part I.

For further information on the treatment of casualties or thefts to business or income-producing property, including rules on the loss of inventory through casualty or theft, see Pub. 334.

***Note:** A gain or loss from a casualty or theft of property used in a passive activity is not taken into account in determining the loss from a passive activity unless losses similar in cause and severity recur regularly in the activity. See **Form 8582**, Passive Activity Loss Limitations, for more information.*

Line 2.—Cost or adjusted basis usually means original cost plus improvements, minus depreciation allowed or allowable (including any deduction taken under section 179), amortization, depletion, etc. Special rules apply to property received as a gift or inheritance. See Pub. 551 for details.

Line 3.—Enter on line 3, insurance or other reimbursement you received or expect to receive for each property.

If you expect to be reimbursed, but have not yet received payment, you must still enter the expected reimbursement from the loss. If, in a later tax year, you determine with reasonable certainty that you will not be reimbursed for all or part of the loss, you can deduct for that year the amount of the loss that is not reimbursed.

Kinds of reimbursements.—Insurance is the most common way in which to be reimbursed for a casualty or theft loss, but if:

(a) Part of a federal disaster loan under the Disaster Relief Act is forgiven, the part you do not have to pay back is considered a reimbursement.

(b) The person who leases your property must make repairs or must repay you for any part of a loss, the repayment and the cost of the repairs are considered reimbursements.

(c) A court awards you damages for a casualty or theft loss, the amount you are able to collect, minus lawyers' fees and other necessary expenses, is a reimbursement.

(d) You accept repairs, restoration, or cleanup services provided by relief agencies, it is considered a reimbursement.

(e) A bonding company pays you for a theft loss, the payment is also considered a reimbursement.

Lump-sum reimbursement.—If you have a casualty or theft loss of several assets at the same time and you receive a lump-sum reimbursement, you must divide the amount you receive among the assets according to the fair market value of each asset at the time of the loss.

Grants, gifts, and other payments.—Grants and other payments you receive to help you after a casualty are considered reimbursement only if they are specifically designated to repair or replace your property. Such payments, if so designated, will reduce your casualty loss deduction. If there are no conditions on how you have to use the money you receive, it is not a reimbursement.

Use and occupancy insurance.—If insurance reimburses you for your loss of business income, it does not reduce your casualty or theft loss. The reimbursement is income, however, and is taxed in the same manner as your business income.

Line 4.—See the instructions for Section A, line 4.

Lines 5, 6, and 7.—See the instructions for Section A, lines 5, 6, and 7, for details on determining fair market value.

Loss on each item figured separately.—Unlike a casualty loss to personal use real estate, in which all improvements are considered one item, a casualty loss to business or income-producing property must be figured separately for each item. For example, if casualty damage occurs to both a building and to trees on the same piece of property, measure the loss separately for the building and for the trees.

Line 8.—If you have business or income-producing property that is completely lost (becomes totally worthless) because of a casualty or theft, figure your loss without taking into account any decrease in fair market value.

Line 10.—If the amount on line 10 consists of losses on items of property held one year or less, and on items held for more than one year, you must allocate the amount between lines 11 and 16 according to how long you held each item.

Lines 11 and 16.—Enter on line 11 all gains and losses to property held 1 year or less. Enter on line 16 all gains and losses to property held more than 1 year. However, see the instructions for line 15, below.

Part II, Column (a).—Use a separate line for each different casualty or theft.

Part II, Column (b)(i).—Enter the part of line 10 from trade, business, rental, or royalty property.

Part II, Column (b)(ii).—Enter the part of line 10 from income-producing property.

Line 13.—If **Form 4797,** Sales of Business Property, is not otherwise required, enter the amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Write "Form 4684."

Line 14.—Estates and trusts, enter on the "Other deductions" line of your tax return. Partnerships, enter on Schedule K (Form 1065), line 11. S corporations, enter on Schedule K (Form 1120S), line 10. Write "Form 4684."

Line 15.—If you had a casualty or theft gain from certain trade, business, or income-producing property held more than 1 year, you may have to recapture part or all of the gain as ordinary income. See the Instructions for Form 4797, Part III, for more information on the types of property subject to recapture. If recapture applies, complete Form 4797, Part III, and this line, instead of Form 4684, line 16.

Line 20a.—Taxpayers, other than partnerships and S corporations, if Form 4797 is not otherwise required, enter amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Write "Form 4684."

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